



Issue Date June 24, 2003
Audit Case Number 2003-KC-1006

TO: John C. Weicher, Assistant Secretary for Housing-Federal Housing Commissioner, H

Roger E. Niesen

FROM: Roger E. Niesen, Regional Inspector General for Audit, 7AGA

SUBJECT: Horizon Consulting, Inc.
44135 Woodridge Parkway, Suite 100
Lansdowne, VA 20176

INTRODUCTION

We have completed an audit of Horizon Consulting, Inc., a Santa Ana Home Ownership Center contractor performing insurance endorsement review procedures. Our objective was to determine if loans submitted for late endorsement were properly endorsed by Horizon Consulting, Inc. We found Horizon Consulting inappropriately endorsed 112 of the 229 loans we reviewed. The 112 loans, valued at \$16,298,236 did not have the required documentation for processing. Based on these results, we are 90 percent confident that Horizon Consulting improperly endorsed between 10,484 and 13,249 loans during fiscal year 2001.

During our audit, we tested a representative sample of 155 late loan endorsement files processed by Horizon Consulting, Inc. for the period October 1, 2000 through September 30, 2001. The random sample was selected from a universe of 20,478 late loan endorsement files and had a desired confidence level of 90 percent. We extended this sample to test a representative sample of 74 loan files from a universe of 41,380 late loan endorsement files processed from October 1, through September 30, 2002. The sample was extended to evaluate the results of additional training provided to Horizon employees during 2002. We tested the loan files to determine if the contractor followed specific "Late Request for Endorsement" procedures. We interviewed contractor employees to identify the processing procedures that were in place. We also interviewed Home Ownership Center staff, and we reviewed HUD Handbook 4165.1 to identify HUD's requirements for late endorsement procedures. For this review we also used some guidance regarding Notices of Rejection that was given to the contractor by Santa Ana Home Ownership Center staff because it

clarified an area not addressed in HUD's written requirements. We performed the audit in accordance with generally accepted government auditing standards.

In accordance with HUD Handbook 2000.06 REV-3, within 60 days please give us, for each recommendation without a management decision, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Additional status reports are required at 90 days and 120 days after report issuance for any recommendation without a management decision. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please contact me at (913) 551-5870

SUMMARY

Horizon Consulting, Inc. endorsed mortgages that did not contain the documentation required to insure loans that are submitted for endorsement more than 60 days after closing. For 83 of the 229 files we tested, the files did not contain the significant information required for endorsement. For another 29 files, procedural information required for late endorsement was missing. Based on these results, we are 90 percent confident that Horizon Consulting improperly endorsed between 10,484 and 13,249 late loans during fiscal year 2001. Horizon Consulting's quality control procedures regarding late endorsements were not adequate to ensure that HUD's guidelines were followed.

The improper late endorsement of the 83 mortgages missing significant requirements increases the probability that HUD will have to pay insurance claims for loans that default, thereby increasing the risk to the Federal Housing Administration insurance fund.

BACKGROUND

Horizon Consulting, Inc., founded in 1994, provides "high volume workflow management, loan quality control and appraisal management services to HUD and other government agencies, multifamily housing owners, and management companies." Horizon estimates it handles 55 percent of loans annually insured under HUD's Federal Housing Administration programs.

Horizon is currently under contract with HUD to perform insurance endorsement processing at two of the Home Ownership Centers (Santa Ana and Atlanta). They were contracted in 1998 for one year at the Santa Ana Home Ownership Center with four available option years. They are currently in their fourth option year, which extends through September 15, 2003. Horizon was contracted to perform a minimum of 20,000 endorsement reviews and a maximum of 150,000 endorsement reviews each year of the contract. According to Horizon Consulting, they processed approximately 50 percent of the 199,313 and 226,854 loans sent to the Santa Anna Home Ownership Center for endorsement during FY 2001 and FY 2002 respectively. Due to

resource limitations, the Home Ownership Center provides a limited number of Computerized Homes Underwriting Management System terminals and space for the contractor.

The Insurance Endorsement process begins when the Home Ownership Center receives a case binder sent by a lender. An Endorsement Technician uses a HUD provided checklist with approximately 60 different items to check. The Late Letter Request for Endorsement contains 7 different requirements. When the endorsement process is complete, the Technician either accepts the case binder for endorsement or rejects it. If rejected, the lender is sent a Notice of Rejection that lists the items that must be corrected before the case can be resubmitted. This process can continue until the lender has successfully met all requirements. Currently, HUD has no limit on the number of times a case can be resubmitted.

Horizon Consulting employs full-time, salaried staff to perform insurance endorsement processing. As a result, Horizon believes their staff is more likely to consider quality when processing loans than other contractor's who compensate their employees based on the number of loans processed. Horizon's management said their employees receive incentive pay for meeting stringent quality control goals and can receive disincentive pay if their error rates exceed an acceptable threshold.

FINDING 1

Mortgages Were Endorsed Without Required Documentation

Horizon Consulting endorsed mortgages that did not contain the necessary documentation for endorsement when the loans were submitted more than 60 days after closing. For 112 of the 229 files we tested, the necessary documentation was omitted and the loans should not have been endorsed. For 83 of these loans, the missing documentation was significant. Horizon Consulting's Quality Control Plan did not provide an effective sample to adequately assess the late loan endorsement process and fix responsibility for improperly processed loans. The improper endorsement of the 83 mortgages missing significant documentation valued at \$12,360,078 increased the risk to the Federal Housing Administration insurance fund.

According to HUD Handbook 4165.1 Chapter 3, late request for endorsement procedures apply if the mortgage is submitted to HUD more than 60 days after closing. The files for those loans must include specific additional documentation. For this review, we used some guidance given to the contractor by Santa Ana Home Ownership Center staff, because it clarified an area not addressed in HUD's written requirements. Notice Of Rejection files originally submitted within the 60-day requirement are only required to contain a current payment ledger when resubmitted. Late endorsement procedures for all other files require the following documentation: 1) an explanation of the delay and actions taken to prevent a recurrence; 2) a certification that escrow accounts are current and intact; 4) a payment ledger reflecting all payments, including payment due in month of submission; and 5) a certification that the lender provided no funds to bring the loan current; and that no previous payments are delinquent. If a delinquent payment exists, the loan cannot be endorsed until the payment ledger reflects six consecutive timely payments.

Horizon Consulting endorsed mortgages that did not contain the necessary documentation for endorsement when the loans were submitted more than 60 days after closing. We tested the loan files to determine if Horizon followed HUD's specific "Late Request for Endorsement" procedures (as listed above). We manually reviewed 155 loan files for fiscal year 2001 and 74 loan files for fiscal year 2002, looking for the documentation required by HUD Handbook 4165.1. We reviewed a limited number of files for fiscal year 2002 to assess the impact of additional training on late endorsement procedures provided to Horizon employees by the Home Ownership Center. For 90 of the 155 files we tested for 2001 (58 percent), we determined that documentation was omitted and therefore, the loans should not have been endorsed. We then projected this error rate to the universe of late endorsement files in 2001 (20,478). We are 90 percent confident that the rate of occurrence of errors in the universe is between 51.2 percent and 64.7 percent, which means between 10,484 and 13,249 files were improperly endorsed by Horizon Consulting during fiscal year 2001. We found improvement in 2002; however, there were still significant problems. Twenty-two of the 74 files tested (29.7 percent) did not contain documentation required for endorsement.

For this test, we considered a loan to be ineligible for endorsement if it met any of the following five significant criteria (1-5) or two procedural criteria (6 and 7):

1. Files that did not have a letter requesting late endorsement.
2. Files with a letter that did not certify that escrow accounts were current and intact.
3. Files with a letter that did not certify that no funds were provided to bring the loan current.
4. Files that did not include a current payment ledger.
5. Files in which one or more of the payments was delinquent.
6. Files with a letter that did not provide a reason for the late submission.
7. Files with a letter that did not indicate actions taken to prevent future occurrences of late submissions.

Although Horizon personnel were adequately trained and knew proper procedures to be followed, we found a significant error rate. Horizon management believed late loans were being properly processed. However, Horizon management was unaware of the problem because their quality control system did not adequately address loans submitted for late endorsement. Late endorsement files have unique requirements but only make up approximately 17 percent of the overall number of loans processed each day. As a result, few of them are selected for review in the daily 10 percent quality control review of all loans called for in the current quality control plan. This allows loans improperly processed for late endorsement to not appear to be a problem since they are absorbed with other loans that do not have the unique procedures for processing. Horizon needs to develop and implement additional procedures that will ensure loans submitted for late endorsement are properly processed.

Horizon should not have endorsed 112 mortgages valued at \$16,298,236. HUD should take appropriate action against Horizon for approving these loans. HUD should also pursue indemnifications from the originating lenders for the 83 loans, valued at \$12,360,078 that were missing significant documentation and, as a result, increase the probability that HUD will have to pay insurance claims on loans that default

AUDITEE COMMENTS

A summary of Horizon's comments on our draft finding follow. Appendix C, page 16, contains the complete text of the comments with the exception of appendices that were provided but are not necessary to understand Horizon's comments. The addressee of this report was provided a full text of the comments.

Horizon requested the 114 originally referenced loans be changed to 106 to reflect information obtained during its review of these loans during May 2003 in the presence of HUD personnel. Subsequently, all cumulative mortgage balances and error rate projections for 2001 should be modified accordingly.

Horizon noted that a significant percentage of the 85 loans we had recommended for indemnification have had the insurance terminated through refinance. They also stated, out of the 114 improperly endorsed files, only 2 have had claims paid, which equates to a 1.7 per cent claim rate. This rate is significantly below the average for HUD. As such, Horizon believes our conclusion that "incorrectly endorsed loans increase HUD's risk" has not been substantiated in this case.

Based on the Inspector General Audit, Horizon moved quickly to modify their endorsement quality control process. A directive was issued to Horizon's staff, effective Monday, April 28, 2003, that all files received after the 60 day requirement shall be color-coded for ease of identification. The Quality Control supervisor will then be able to select more of these color-coded files thus increasing the number of "late endorsement files" reviewed during the quality control process.

Horizon also conducted additional training on the review of payment histories. This measure was taken to further enhance the employees' ability to identify all mortgage payments and determine if the payment has been made in the month due as required by HUD. This additional training was deemed appropriate as there are an immeasurable number of formats used by the mortgage industry for payment histories. This should significantly reduce the probability of endorsing loans where delinquent payments exist.

OIG EVALUATION OF AUDITEE COMMENTS

We commend Horizon for the great strides it has taken towards improvement of its quality control process and employee training. If the controls described by Horizon are fully implemented, they should help in preventing future occurrences of improperly endorsed loans. However, Horizon needs to implement procedures that ensure a sufficient sample size is selected from the color-coded late endorsement files in order to draw valid conclusions on whether proper procedures are being followed. Horizon's change to the quality control procedures only ensures the late endorsement files are segregated.

Horizon noted that a significant number of the files recommended for indemnification have had the insurance terminated due to refinancing; therefore, they believe our conclusion that “incorrectly endorsed loans increase HUD’s risk” has not been substantiated in this case. We believe current market conditions are the reason for the large number of refinancing actions that have occurred, including a large number of the improperly endorsed loans. If market conditions were not as conducive to refinancing, many of these loans would not have been terminated. The fact that these loans are no longer active does not negate the fact that they were improperly endorsed in the first place. HUD needs to seek indemnification on the improperly endorsed loans missing significant documentation that are still currently HUD insured.

We reviewed the additional documentation provided by Horizon for 8 of the 114 loans we identified as improperly endorsed. Based on this documentation, we removed 2 loans from our finding. This reduces the total number of files improperly endorsed by Horizon to 112 out of the 229 reviewed during FY 2001 and 2002, for a total of \$16,298,236. The total number of files missing significant documentation was reduced to 83, totaling \$12,360,078. Details from our review of this documentation are found in Appendix D.

RECOMMENDATIONS

We recommend the Assistant Secretary for Housing – Federal Housing Commissioner:

- 1A. Seeks indemnification from the respective mortgagees for the 83 improperly endorsed loans (see Appendix A) that were missing significant documentation and that are still currently HUD insured.
- 1B. Ensures Horizon Consulting, Inc. revises its quality control plan to include procedures that ensure loans submitted for late endorsement are segregated and reviewed using a sufficient sample size to draw valid conclusions on whether proper procedures are being followed and fix responsibility.
- 1C. Takes appropriate administrative action against Horizon Consulting, Inc. This should include recouping a portion of Horizon’s processing fees based on the projected error rate for FY 2001 (10,484 – 13,249 loans).

MANAGEMENT CONTROLS

Management controls include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

We determined that the following management controls of Horizon Consulting were relevant to our audit objectives:

- The policies and procedures to ensure only eligible loans submitted late for endorsement are endorsed.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

Based on our review, we believe the following item is a significant weakness (See Finding 1):

- The Quality Control Plan does not ensure that an adequate number of late endorsement files are included in the daily 10 percent review. Late endorsement files have unique requirements but only make up approximately 17 percent of the overall number of loans processed each day. As a result, few of them are selected for review in the daily 10 percent quality control review of all loans called for in the current quality control plan. This allows loans improperly processed for late endorsement to not appear to be a problem since they are absorbed with other loans that do not have the unique procedures for processing.

APPENDIX A

FISCAL YEAR 2001

FHA #	No Letter Requesting Late Endorsement	No Reason for Late Submission Given	No Indication Actions Taken to Prevent Future Occurrences of Late Submissions	Did not Certify that Escrow Accounts were Current & Intact	Did Not Certify that No Funds were Provided to Bring Loan to a Current Status	Payment Ledger was not Current and/or Included	Payments were Delinquent	Mortgage Amount
042-7649040			x		x			\$133,860
042-7663512						x		\$151,749
042-7670384			x					\$218,538
043-6348441				x				\$162,226
043-6566821						x		\$222,477
043-6586747			x	x	x	x		\$145,030
043-6639147						x		\$84,900
043-6684117				x	x			\$157,758
043-6701953						x		\$159,700
043-6735298					x			\$171,334
043-6762368						x		\$128,390
111-0997223						x		\$126,022
111-0998518							x	\$55,717
111-1016523	x	x	x	x	x	x		\$132,940
197-0911526				x				\$139,826
197-1298291	x	x	x	x	x			\$120,765
197-1463199			x	x	x	x		\$131,006
197-1473971						x		\$146,370
197-1634753			x	x	x			\$275,190
197-1723088					x			\$86,441
197-1731003			x	x	x			\$253,305
197-1760203			x					\$162,659

FHA #	No Letter Requesting Late Endorsement	No Reason for Late Submission Given	No Indication Actions Taken to Prevent Future Occurrences of Late Submissions	Did not Certify that Escrow Accounts were Current & Intact	Did Not Certify that No Funds were Provided to Bring Loan to a Current Status	Payment Ledger was not Current and/or Included	Payments were Delinquent	Mortgage Amount
197-1763114		x	x	x	x			\$152,250
197-1825761							x	\$168,536
197-1842094	x	x	x	x	x		x	\$142,400
197-1862995	x	x	x	x	x			\$217,209
197-1866373		x	x					\$160,480
197-1886008		x	x					\$136,285
197-1913660			x	x	x	x		\$213,242
197-1923928			x	x	x			\$194,397
197-1951051			x	x	x	x		\$256,386
197-1957661						x		\$186,751
197-1986747					x	x		\$147,682
197-2010055				x	x	x		\$91,899
197-2013538			x					\$176,857
197-2017273		x	x	x	x	x		\$138,040
197-2026417			x	x	x			\$167,275
197-2033561						x		\$115,203
197-2049526	x	x	x	x	x	x		\$208,724
197-2056851			x	x	x			\$140,790
197-2106199			x			x		\$137,837
197-2136693						x		\$81,447
197-2174392						x		\$236,657
197-2187974			x	x		x		\$160,975
332-3433852				x	x			\$59,150
332-3457792			x			x		\$118,523

FHA #	No Letter Requesting Late Endorsement	No Reason for Late Submission Given	No Indication Actions Taken to Prevent Future Occurrences of Late Submissions	Did not Certify that Escrow Accounts were Current & Intact	Did Not Certify that No Funds were Provided to Bring Loan to a Current Status	Payment Ledger was not Current and/or Included	Payments were Delinquent	Mortgage Amount
332-3475540	x	x	x	x	x			\$121,547
332-3535230			x		x			\$123,602
332-3539638				x	x			\$136,680
332-3584934	x	x	x	x	x			\$184,372
332-3649020						x		\$88,964
332-3653416							x	\$101,570
431-3363093			x			x		\$147,017
431-3384280			x					\$140,119
431-3385275							x	\$123,722
431-3433635			x					\$113,861
431-3467283			x	x	x			\$93,252
431-3469941		x	x					\$162,850
431-3481703						x		\$109,831
431-3485655						x		\$105,113
431-3485986	x	x	x	x	x	x		\$138,756
431-3486588		x	x					\$73,000
431-3500384			x	x	x	x		\$85,031
431-3502905		x	x					\$158,692
431-3517111				x				\$131,391
431-3519555	x	x	x	x	x			\$163,413
431-3525754			x	x		x		\$157,528
431-3527125			x	x				\$171,941
431-3553539			x	x		x		\$167,323
431-3555257						x		\$148,523

FHA #	No Letter Requesting Late Endorsement	No Reason for Late Submission Given	No Indication Actions Taken to Prevent Future Occurrences of Late Submissions	Did not Certify that Escrow Accounts were Current & Intact	Did Not Certify that No Funds were Provided to Bring Loan to a Current Status	Payment Ledger was not Current and/or Included	Payments were Delinquent	Mortgage Amount
431-3564321		x	x					\$91,048
431-3595936						x		\$150,829
561-7034857			x					\$216,552
561-7072680				x	x	x		\$122,811
561-7093701						x		\$152,981
561-7101055			x	x	x			\$142,250
561-7107902						x		\$174,847
561-7120212						x		\$124,150
561-7164469			x	x	x			\$155,200
561-7205738	x	x	x	x	x			\$171,261
561-7215729			x					\$92,415
561-7223912			x	x	x	x		\$144,637
561-7225458		x	x					\$163,900
561-7231919						x		\$63,945
561-7235247			x					\$132,914
561-7235769			x					\$63,995
561-7242645						x		\$207,201
561-7243933			x					\$80,634
561-7272892						x		\$135,981
569-0471536			x					\$102,157
Totals	10	19	53	38	36	41	5	\$13,013,004.00

FISCAL YEAR 2002

FHA #	No Letter Requesting Late Endorsement	No Reason for Late Submission Given	No Indication Actions Taken to Prevent Future Occurrences of Late Submissions	Did not Certify that Escrow Accounts were Current & Intact	Did Not Certify that No Funds were Provided to Bring Loan to a Current Status	Payment Ledger was not Current and/or Included	Payments were Delinquent	Mortgage Amount
042-7714739			x			x		\$151,300
043-6774127						x		\$242,838
043-6950145			x					\$68,820
043-6979660			x					\$138,050
111-1029527						x		\$189,180
111-1045650						x		\$173,321
197-2043908			x					\$211,678
197-2323008			x					\$127,991
197-2338243			x					\$160,383
197-2347642						x		\$94,963
197-2379487			x					\$187,775
197-2420663						x		\$200,848
197-2513027			x					\$133,117
431-3587611						x		\$167,576
431-3633593			x			x		\$93,637
431-3656201						x		\$157,963
431-3682197			x					\$125,606
431-3769985							x	\$155,558
561-7257111			x			x		\$166,846
561-7311909			x					\$132,914
561-7418631			x					\$91,350
569-0528262			x					\$113,518
Totals	0	0	14	0	0	10	1	\$3,285,232.00

APPENDIX B

SCHEDULE OF QUESTIONED COSTS AND FUNDS PUT TO BETTER USE

<u>Recommendation Number</u>	<u>Type of Questioned Cost</u>		<u>Funds Put to Better Use 3/</u>
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>	
1A			\$ 12,360,078

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law, contract or Federal, State or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or HUD-insured program or activity and eligibility cannot be determined at the time of audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the costs. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of Departmental policies and procedures.

3/ Funds Put to Better Use are costs that will not be expended in the future if our recommendations are implemented. For this review, the funds put to better use consist of loans and guarantees not made because of indemnification.

AUDITEE COMMENTS

May 31, 2003

Roger Niesen
Regional Inspector General for Audit, 7AGA
U.S. Department of Housing and Urban Development
Great Plains Office of Regional Inspector General for Audit, 7AGA
Gateway Tower II – 5th Floor
400 State Avenue
Kansas City, KS 66101-2406

**Re: Draft Memorandum and Audit of Horizon Consulting
Incorporated**

Dear Mr. Niesen,

We are in receipt of the draft memorandum report. Thank you for the opportunity to review this document and to provide written observations. We wanted to comment first on the recommendations provided in the report, as we believe that both of our organizations have the same objective i.e. to ensure that FHA loans are properly endorsed. We have organized the remainder of our comments to correlate to the sections of the draft audit report.

Recommendations

Indemnification

While it is, of course, HUD's decision to seek indemnification on 85 loans, we would note that a significant percentage of the loans have had the insurance terminated through refinance. Based on information dated 4-29-03 provided by the Santa Ana HOC only 50 files of the 114 files sited remain active. 61 have either refinanced or paid-off and are no longer HUD insured. Therefore there are no longer 85 loans to indemnify.

Revised Quality Control Plan

Based on the IG Audit, Horizon moved quickly to modify its endorsement quality control process. Specifically, a directive was issued to the Horizon staff to be effective Monday, April 28th, only 2 days following the exit conference, that all files received after the 60 day requirement shall be color coded for ease of identification. The QC Supervisor will then be able to select more of those color-coded files thus increasing the number of "late endorsement files" reviewed during the quality control process. See copy of plan attached.

Appropriate Administrative Action Against Horizon

We will defer to HUD's decision but would like to emphasize that the sanction should be based on the adjusted projected error rate for FY 2001 (more details below).

Introduction

In paragraph one (1), we would respectfully request that the 114 referenced loans be changed to 106 to reflect the information obtained by Horizon during its review of these loans during May 2003 in the presence of HUD personnel. A summary of Horizon's findings are provided in Appendix A attached. Subsequently all cumulative mortgage balances and error rate projections for 2001 should be modified accordingly.

Summary

The information provided by the Santa Ana HOC, which reveals the status of each of the 114 audited files shows that only 50 remain active as of 4-29-03. 2 claims have been paid which equates to a 1.7% claim rate, which is below the average for HUD. As such, the statement made that "incorrectly endorsed loans increase HUD's risk" has not been substantiated in this case. Horizon does, however, understand and respect the IG's perspective when conducting these types of audits that any violation of the Handbook 4165.1 requirements is considered to have increased HUD's risk. Again, we would request that the figures provided be changed to reflect the information provided in Appendix A comments attached.

Horizon Consulting Incorporated understands the importance of the late payment processing when providing insurance endorsement processing services to HUD. Late payment letters and accompanying payment ledgers are critical in this matter, however, other requirements with respect to what the letter should state may not be true indicators of "risk." Typically, late payment files are rejected due to missing language in the late letter. This language, in most cases, is canned and the file is resubmitted with a new letter including canned language. The cost to HUD includes unnecessarily high NOR rates and administrative and postage fees associated with mailing back NOR'd files. The key to protecting HUD and the insurance fund are the certifications that mortgage lenders provide with respect to the loan status (loans and escrows current); funds provided (mortgagee did not provide funds); and supporting proof (payment ledger).

Horizon would like to take this opportunity to provide a recommendation with respect to processing loans submitted for late endorsement. Horizon would strongly support a move by HUD to:

- (1). Require that a specific certification form (or letter) be completed by lenders for late files which provides those certifications that protect HUD and the insurance fund as outlined above, thus eliminating the "canned" statement letters currently being used and
- (2). Creating a mode of standardization of payment histories to be used on FHA loans. This standardization would not require mortgage lenders to use a "specific" software program, but would require that specific information be provided on the payment histories submitted that is easily discerned.

Background

Finding 1

Finding one suggests that improper endorsement of the 85 mortgages listed as missing significant documentation increased the risk to the FHA fund. Further investigation of these 85 loans evidence that as of 4-29-03, 50 loans remain active and the other 35 have been paid off or refinanced.

Horizon would like to point out that of the 229 files reviewed, only 85 were considered to have significant findings. It could be argued that only these 85 should be cited in the IG's report that HUD should take "appropriate action against Horizon for approving" as opposed to 114.

Management Controls

As noted above, Horizon has modified its quality control process to ensure that all late endorsement files are easily identified and that a higher percentage of these files are reviewed through the quality control process.

In addition Horizon has conducted additional training on the review of payment histories. This measure was taken to further enhance the employees' ability to identify all mortgage payments and determine if the payment has been made in the month due as required by HUD. This additional training was deemed appropriate as there are an immeasurable number of formats used by the mortgage industry for payment histories. This should significantly reduce the probability of endorsing loans where delinquent payments exist.

Again thank you for the opportunity to review this document and to provide written observations.

Sincerely,

Wanda A. Alexander
President and CEO

Attachments

(We have not included the attachments provided by Horizon in this report, since they are not necessary to understand the comments. The attachments have been provided to the addressee of this report.)

APPENDIX D

Horizon's review of the 114 audited files resulted in 8 files found to be inconsistent with the findings by the IG. The following table outlines what was found during Horizon's review of the files and our evaluation of their findings.

Case Number	Horizon Comments & Documentation	OIG Review of Comments & Documentation
Horizon was able to review 113 files as one was an invalid case number and could not be located.	Invalid Case Number	Details as to which Case Number was invalid were not provided; therefore, we could not verify this statement
Case # 043-6622220	IG Stated - No Letter Requesting Late Endorsement See Exhibit A. Letter was found in file. Letter contains all required certifications and finding should be withdrawn	IG reviewed documentation provided by Horizon and agrees to remove all findings pertaining to this case number.
Case # 197-1634753	IG Stated - No Letter Requesting Late Endorsement and Payment Ledger was not Current and/or Included. See Exhibit B. Letter and Payment Ledger were found in file. Letter does not contain all required certifications however Payment ledger is complete	IG reviewed documentation provided by Horizon and agrees to remove findings for no letter, no reason, and no payment history. Findings of no corrective actions, no escrow certification, and no funds certification remain.
Case # 197-1760203	IG Stated - No Reason for Late Submission Given and No Indication of Actions Taken. See Exhibit C. Letter did contain Reason for Late Submission	IG reviewed documentation provided by Horizon and agrees to remove finding for no reason. Finding for no corrective actions remains.
Case # 197-2017273	IG Stated - Payment ledger was not current and/or included. See Exhibit D. Payment Ledger was included and current.	IG reviewed documentation provided by Horizon and disagrees that the payment ledger was current. Payments for 3/1/01 and 4/1/01 were required. Payment history only showed payment for 4/1/01. Finding that payment history was not current remains.
Case # 197-2049526	IG Stated - Payment ledger was not current and/or included. See Exhibit E. Payment Ledger was included and appears to be current however actual transaction date is not shown. Could be some discussion over acceptability of this payment history.	IG reviewed documentation provided by Horizon and disagrees that the payment ledger was current. Payments for 5/1/01, 6/1/01, 7/1/01, and 8/1/01 were required. Payment history only showed payment for 5/1/01. Finding that payment history was not current remains.

Case Number	Horizon Comments & Documentation	OIG Review of Comments & Documentation
Case # 197-2347642	IG stated - No letter requesting late endorsement and payment ledger was not current and/or included. See Exhibit F. This is actually a Pre-Endorsement test case therefore the date of submission or receipt by HUD is dated prior to closing and cannot be used to determine date received for endorsement purposes. Per HUD 1 Closing date was 8-17-01. File contains a NOR dated 10-09-01 showing file was submitted within the 60 day requirement. File was insured 10-25-01 and did not contain a payment ledger for first payment.	IG reviewed documentation provided by Horizon and agrees that the file was originally received within the 60-day requirement. However, the file was NOR'd and resubmitted after the 60-day requirement. Therefore, the letter was not required, but the current payment history was. All findings regarding the letter have been removed. Finding that current payment history was not included remains.
Case # 332-3605570	IG Stated - No Letter requesting late endorsement. See Exhibit G. File did not require Late Letter per HUD 1 closing date is 3-28-01. File received 5-24-01.	IG reviewed documentation provided by Horizon and agrees to remove all findings pertaining to this case number.